### CHAPTER 9

### LONG-LIVED ASSETS

### 20-MINUTE QUIZ #1

Circle the correct answer.

**True/False**

1. Cost includes all expenditures that are necessary in order to acquire the asset and make it ready for its intended use, including the wages of employees who get the asset ready for its intended use.

True

False

2. Legal costs incurred to purchase a building are not included as part of the cost of the building.

True

False

3. The carrying amount of an asset equals its cost less accumulated depreciation.

True

False

4. Under the double diminishing-balance method of depreciation, an asset may not be depreciated below its estimated residual value.

True

False

5. Ordinary repairs are capital expenditures that should be depreciated over the useful life of the asset.

True

False

6. The cost of an addition is debited to the appropriate asset account.

True

False

7. When the proceeds exceed the carrying amount of a piece of equipment being sold, the excess is debited to Loss on Disposal.

True

False

8. When units-of-production method is used to calculate the depreciation of an asset, adjustments to depreciation expense are not required for partial years.

True

False

9. Under IFRS, only intangible assets with indefinite lives are amortized.

True

False

10. Asset turnover is calculated by dividing average total assets by net sales.

True

False

**Multiple Choice**

1. The cost of a factory machine includes all of the following costs except:

1. Invoice price.
2. Shipping costs paid by the buyer.
3. One-year insurance policy on the machine.
4. Testing and installation cost.

2. On January 1, Year 1, a machine with a useful life of 5 years and a residual value of $1,000 was purchased for $20,000. What is the depreciation expense in Year 2 under the diminishing-balance method?

1. $4,800
2. $4,560
3. $3,200
4. $3,040

3. On June 1, Year 1, a machine costing $45,000 was acquired. The machine is expected to produce 90,000 units over a 5-year period, after which it will be scrapped. The machine produced 20,000 units during Year 1. The company’s fiscal year end is December 31. Which statement is true?

1. Using the units-of production method, depreciation expense for Year 1 is $5,000.
2. Using the units-of production method, depreciation expense for Year 1 is $10,000.
3. Using the units-of production method, depreciation expense for Year 1 is $5,833.
4. Using the straight-line method, depreciation expense for Year 1 is $4,500.

4. An asset that cost $20,000 and has accumulated depreciation of $15,000 is sold for $2,000. The journal entry would include a:

1. Debit to Loss on Disposal of $5,000.
2. Debit to Loss on Disposal of $3,000.
3. Credit to Gain on Disposal of $3,000.
4. Credit to Accumulated Depreciation for $15,000.

5. The exclusive right to manufacture, sell or otherwise control an invention is called a:

1. Patent.
2. Trademark.
3. License.
4. Copyright.

**ANSWERS TO 20-MINUTE QUIZ #1**

**True/False**

1. False

2. False

3. True

4. True

5. False

6. True

7. False

8. True

9. True

10. False

**Multiple Choice**

1. c

2. a

3. c

4. b

5. a

### 20-MINUTE QUIZ #2

1. On October 1, 2016, Bartow Company purchased a delivery truck for $45,000. It is estimated that the truck will be driven 320,000 km during a five-year period, after which it will be sold for $5,000. The truck was driven 30,000 km in 2016.

Calculate:

a) Depreciation for 2016 using the straight-line method.

b) Depreciation for 2016 and 2017 using the double-diminishing balance method.

c) Depreciation for 2017 using the units-of-production method.

2. On April 30, 2017, Wilson Company sold a used piece of manufacturing equipment for $6,500. The equipment had been purchased on January 1, 2014 for $50,000. The equipment was estimated to have a useful life of 4 years, with a residual value of $2,000. The equipment had been depreciated using the straight-line method. Depreciation was last recorded for the year ended December 31, 2016.

Record all the necessary journal entries associated with the sale of the equipment on Apr 30, 2013.

### ANSWERS TO 20-MINUTE QUIZ #2

1.

a) Depreciation for 2016 using the straight-line method:

$45,000 - $5,000 = $40,000

$40,000 ÷ 5 years = $8,000

$8,000 x 3/12 = $2,000

b) Depreciation for 2016 using the double-diminishing balance method:

100% ÷ 5 x 2 = 40%

$45,000 x 40% x 3/12 = $4,500

Depreciation for 2017 using the double-diminishing balance method:

($45,000 - $4,500) x 40% = $16,200

c) Depreciation for 2016 using the units-of-production method:

$45,000 - $5,000 = $40,000

$40,000 ÷ 320,000 km = $0.125 per km

$0.125 per km x 30,000 km = $3,750

2.

Carrying amount on December 31, 2016: $14,000

($50,000 - $2,000) ÷ 4 = $12,000 annual depreciation

$12,000 x 3 = $36,000 accumulated depreciation

$50,000 - $36,000 = $14,000

Record the depreciation for 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Apr 30 | Depreciation Expense | 4,000 |  |
|  | Accumulated Depreciation |  | 4,000 |
|  | Four months depreciation. ($12,000 x 4/12) |  |  |

Gain or loss on disposal: $3,500 loss

Carrying amount on April 30 ($14,000 - $4,000) $10,000

Proceeds 6,500

Loss on disposal $ 3,500

d) Record the sale of the equipment on Apr 30, 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Apr 30 | Cash  Accumulated Depreciation ($36,000 + $4,000)  Loss on Disposal | 6,500  40,000  3,500 |  |
|  | Equipment |  | 50,000 |
|  | Sold used equipment. |  |  |